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with Shopping Center Age

The newsmagazine for retail management

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BIG BUILDERS 1988

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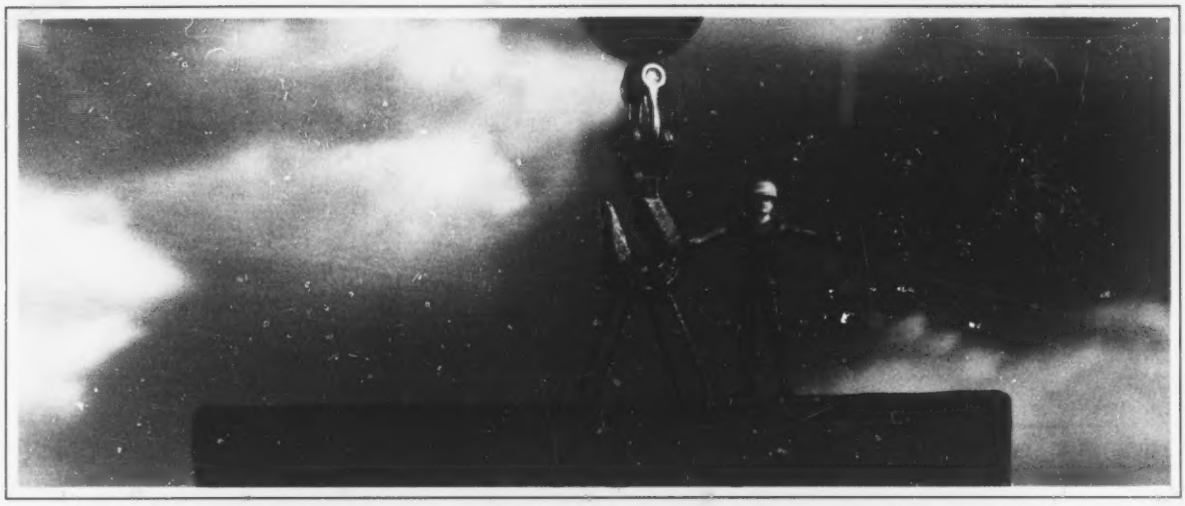

BIG BUILDERS 1988: SPENDING SLOWS

Led by Wal-Mart, K mart and Dayton Hudson, the nation's Top 25 Big Builders will spend more than $7.2 billion this year to add 58,527,980 sq. ft. of retail space. The pace of new store building and renovation, however, is slowing. Last year the top retail builders spent $7.4 billion to add 66,606,398 sq. ft. *20*

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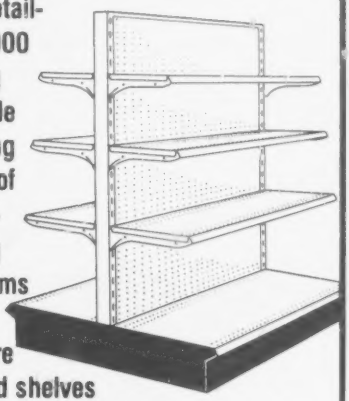

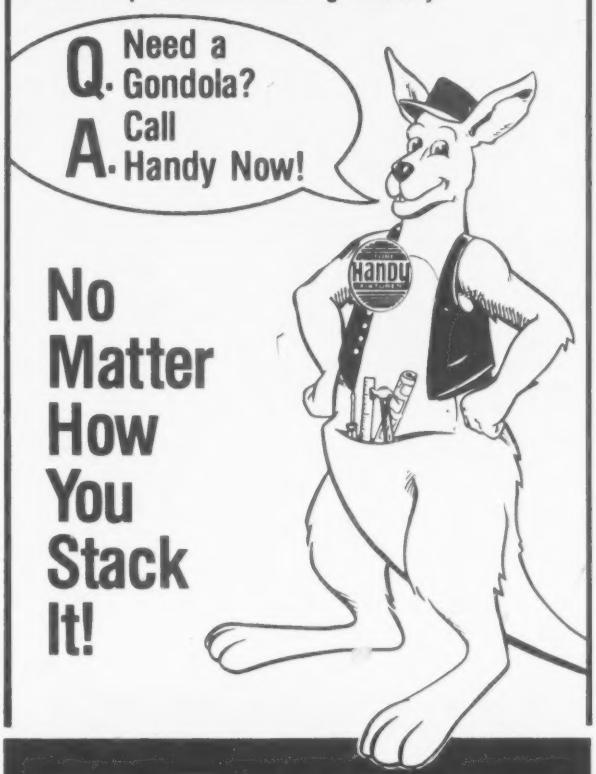

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BIG BUILDERS 1988: SPENDING SLOWS

TOP 25 RETAILERS KEEP CAPITAL EXPENDITURES ON A TIGHTER REIN

Is it an aftershock of last year's stock market crash? Is it a more general uncertainty about just what the future holds in an election year? Or is it an admission that the pundits may be right, and that the United States really does have enough stores already?

Whatever the cause, retailers are spending less on construction this year. While last year Dayton Hudson ranked as the nation's biggest retail spender, investing $876 million for capital expenditures, this year May Department Stores takes over the No. 1 spot with estimated expenditures of only $660 million.

In total, this year's Top 25 Big Builders are investing $7.2 billion in capital expenditures, a decrease from last year's $7.4 billion.

Though spending may be down, the roster of the Top 25 retail companies ranked by additions to gross square footage points to tomorrow's Big Builders.

Wal-Mart retains the No. 1 ranking, and the next four players all appeared on last year's list as well.

At No. 6, though, is Phar-Mor, a brand-new player in the Big Builders sweepstakes. Other new names on this year's gross square footage rankings include Silo, Burlington Coat Factory, Lowe's, Drug Emporium, Costco and Jamesway.

In total, the 1988 Big Builders will be adding 58,527,980 sq. ft., down from 1987's 66,606,398 sq. ft. (1988 figures exclude any major store acquisitions).

What the rankings do not illustrate fully, however, is that while growth may have slowed for some of the big-store operators, there is a host of retail companies with smaller stores that are rapidly adding new units.

They include companies such as Brookstone, Williams-Sonoma, The Sharper Image and Blockbuster Video (along with a long list of other video rental "superstore" operators).

What these aggressive builders have in common is that they do not sell apparel. Yet the slowdown in that business, though curtailing the plans of start-up apparel retailers, has not had a dramatic impact on the building plans of already well-positioned chains.

For example, although the fortunes of Columbus, Ohio-based The Limited suffered badly both from weak apparel sales and from the impact of last year's Black Monday stock market crash, the company still will add 1,500,000 sq. ft. of new store space this year.

Including The Limited's acquisition of Abercrombie & Fitch would add still another 168,000 sq. ft. to the total. This is up slightly from last year's 1,475,000 sq. ft.

Slated for 1988 is the opening of 50 Limited stores (including a number of larger 20,000 sq. ft. "superstores"), 79 Limited Express stores (some now featuring menswear as well as women's apparel), 60 Lane Bryants, 31 Lerner stores, 13 Lerner Woman stores and 96 Victoria's Secrets.

Many of the new Victoria's Secret stores, such as the recently opened unit in Washington, D.C.'s Union Station, are designed to showcase the chain's new line of home and personal fragrances. The chain even will feature a new line of men's undergarments.

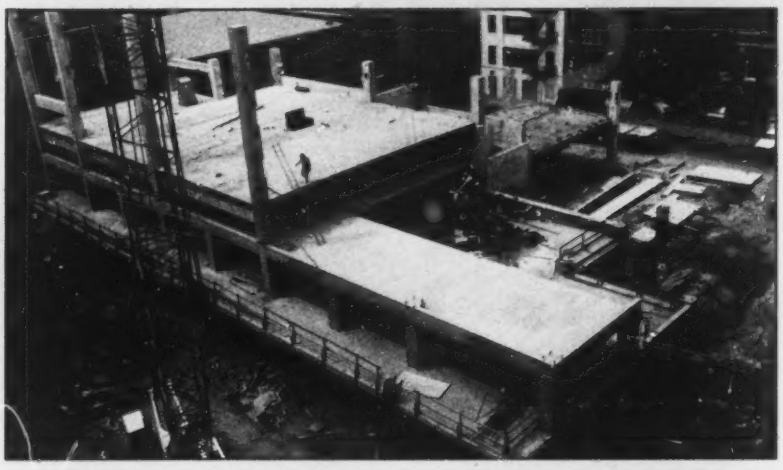
The Limited's plans for Victoria's Secret illustrate an industry-wide trend. Like smaller specialty store operators that are finding success by catering to a well-defined market niche, the bigger players now are seeking out new niches where they can put their experience to work.

Another example is The Gap. Hurt last year by the apparel slowdown (as well as by some internal prob-

Capital expenditures

	1988 (000)	1987 (000)
1. May Dept. Stores	$660,000	$800,000
2. K mart	650,000	600,000
3. Dayton Hudson	600,000	876,000
4. Wal-Mart	522,000	404,000
5. Dillard	510,000	255,000
6. J.C. Penney	450,000	360,000
7. Sears	400,000	355,000
8. American Stores	370,000	289,000
9. Kroger	350,000	460,000
10. Albertsons	325,000	194,000
11. Toys 'R' Us	325,000	200,000
12. The Limited	300,000	245,000
13. F.W. Woolworth	268,000	244,000
14. A&P	203,000	150,000
15. Supermarkets General	170,000	160,000
16. Melville	162,000	130,000
17. Walgreens	160,000	130,000
18. Winn-Dixie	154,000	149,000
19. Giant Food	140,000	93,000
20. U.S. Shoe	110,000	165,000
21. Fred Meyer	100,000	80,000
22. Lowe's	100,000	102,000
23. Ames	90,000	50,000
24. Carter Hawley Hale	80,000	15,000[1]
25. The Gap	70,000	66,000

[1]For half-year only, due to changes in accounting practices
Source: *Chain Store Age Executive* research and company annual reports



Gross square footage added

	1988	1987
1. Wal-Mart	12,200,000	14,531,000
2. K mart	6,562,000	6,786,000
3. Dayton Hudson	3,880,000	9,640,000[1]
4. Kroger	3,128,300	3,250,000
5. Toys 'R' Us	2,945,000	2,727,000
6. Pher-Mor	2,375,000	N/A
7. May Dept. Stores	2,265,000	3,430,000
8. Home Depot	2,100,000	1,400,000
9. Dillard	1,995,000	802,000
10. Melville	1,848,100	2,200,000
11. Ames	1,730,000	1,377,000
12. F. W. Woolworth	1,695,150	1,306,000
13. J. C. Penney	1,600,000	3,448,500
14. Albertsons	1,500,000	1,600,000
15. Sllo	1,500,000	775,000
16. The Limited	1,463,980	1,475,047[2]
17. Hills	1,280,000	1,200,000
18. Burlington Coat Factory	1,257,750	1,179,000
19. Sears	1,200,700	700,000
20. Lowe's	1,110,000	1,080,000
21. A&P	1,100,000	502,000
22. Hechingers	1,000,000	900,000
23. Drug Emporium	1,000,000	750,000
24. Costco	900,000	500,000
25. Jamesway	835,000	627,000

[1]1987 number reflects acquisition of Target Stores in southern California from Gemco
[2]Does not reflect acquisition of Abercrombie & Fitch
Source: Chain Store Age Executive research and company annual reports

lems of its own), the San Bruno, Calif.-based company nonetheless has announced plans to open 45 Gap stores this year.

More significantly, it is continuing the rapid expansion of its Gap Kids chain, adding 35 new stores this year (29 were opened in 1987). The chain, which sells basic children's clothes—such as jeans, T-shirts and sweatshirts—is finding a ready welcome in regional malls.

Going slightly more upscale in appeal, last year The Gap launched another new format, Hemisphere. Selling a mixture of men's and women's apparel in highly stylized stores, it opened three Hemispheres in 1987. Eight more are on tap this year.

Despite recent negative publicity, management is continuing to open new Banana Republic units as well, although at nowhere near the rapid pace of years past.

The chain opened 27 Banana Republics in 1987. Fifteen will debut this year. The stores will get a new, broader merchandise mix that features more colors and more lines beyond the basics.

Most of the nation's largest Big Builders are achieving that status this year not only because they are expanding existing operations, but also because they are launching new retail concepts.

Wal-Mart is among the most adventuresome. By the end of 1988, the Bentonville, Ark.-based company will operate more than 90 million sq. ft.

This year's plans call for the addition of an estimated 12,200,000 sq. ft., slightly below last year's 14,531,000 sq. ft.

Included in this year's totals are two new hypermarkets (each approximately 225,000 sq. ft.) and 18 Sam's Wholesale Clubs, averaging 100,000 sq. ft.

In addition, the company expects to add 125 Wal-Mart discount stores in 1988. Three existing Wal-Mart stores, meanwhile, will be reconfigured into the new larger Wal-Mart Super Center concept (with stores averaging 100,000 sq. ft.).

Troy, Mich.-based K mart, which takes over the No. 2 spot on this year's ranking by adding 6,562,000 sq. ft., is devoting considerable resources expanding both its core businesses and launching new ones.

While K mart's own hypermarket concept, American Fare, is not slated to open until early 1989, the discount chain is launching new ventures, including both an office supply warehouse and a sporting goods warehouse.

In addition, K mart will open 18 Builders Squares (averaging 80,000 sq. ft.), 34 PayLess Drug Stores (25,000-30,000 sq. ft.) and 94 Waldenbooks (3,000 sq. ft.).

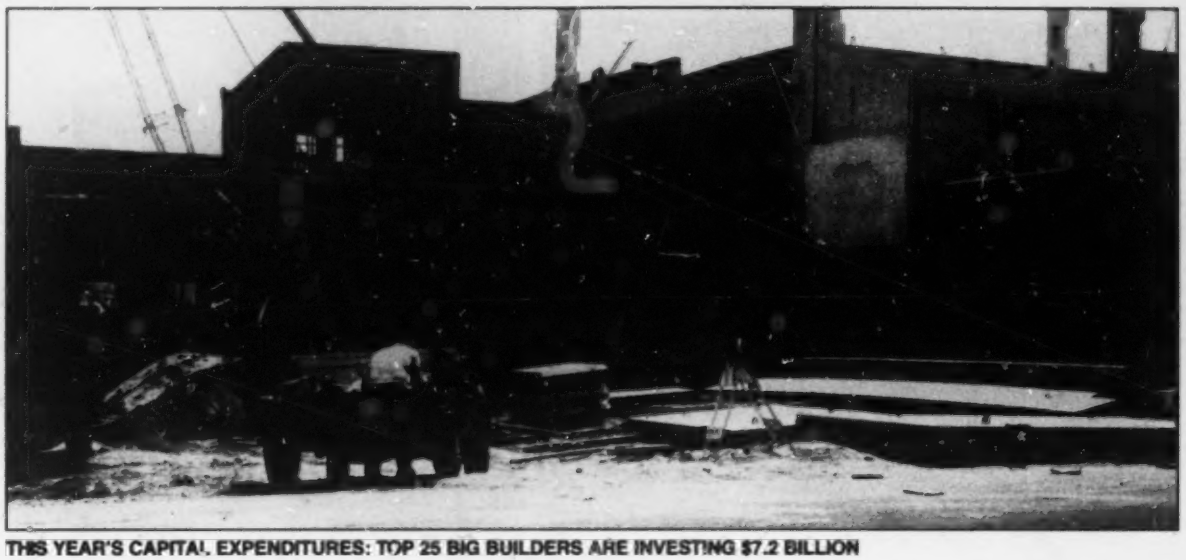
Waldenbooks is experimenting with a number of new store concepts targeted at specific consumer markets. These include Waldenkids, Waldensoftware, Waldenbooks and More and Brentanos.

Experimentation also is taking place within K mart stores themselves. These include efforts to make smaller K mart stores more competitive by redesigning floor plans and displays.

In addition, K mart is creating "little stores within a store" with the goal of increasing customer service and sales in certain key merchandise areas such as small appliances, home electronics and cameras. These categories now form a new "Electronics Department" staffed by full-time service personnel.

K mart was among the first of the giant retailers to begin diversifying into specialty businesses, but the company is no longer alone.

Dallas-based J. C. Penney is investing in a number of new specialty



THIS YEAR'S CAPITAL EXPENDITURES: TOP 25 BIG BUILDERS ARE INVESTING $7.2 BILLION

retailing ventures.

Early this year Penney opened the first two In Detail bed and bath shops. In addition, it operates 12 Tezio cosmetics shops, and is beginning to open Mixit shops for juniors (some operating within traditional J. C. Penney full-line stores).

The company purchased the Units women's specialty shops and rapidly is expanding that chain.

Chicago-based Sears, Roebuck, meanwhile, has begun devoting the resources of its Merchandise Group to more than simply continuing to remodel existing Sears stores and adding new ones. In total this year, the company plans to add 1,200,000 sq. ft., up from last year's 700,000 sq. ft.

With the acquisition of Western Auto earlier this year, joining specialty store operations San Antonio-based EyeCare Centers of America and Minneapolis-based Pinstripe Petites, it is a sure bet that these operations will be the recipients of a goodly portion of Sears' 1988 capital expenditures budget of $400 million.

Sears has made it clear that it intends to continue to expand its specialty store businesses, including the opening of freestanding McKids children's clothing stores.

When it comes to Sears stores themselves, not only is the company wrapping up plans to open urban, neighborhood units, but also it has begun the revamping of its consumer electronics and home appliance offerings into the new Brand Central concept (*Chain Store Age Executive*, October 1988).

Sears, though, may be somewhat late in bidding on a winner in the consumer electronics sweepstakes. Many electronics chains faltered badly last year as demand weakened.

Only one, Silo, makes this year's list of Gross Square Footage Big Builders, with plans to open 1,500,000 sq. ft. of new space, up from last year's 775,000 sq. ft.

Silo's expansion plans, no doubt, are fueled not only by its own success, but also by its acquisition last year by British-based Dixon Group.

Richmond, Va.-based Circuit City, ranked 24th on last year's list with 805,000 sq. ft. of new space, drops off of this year's with only 500,000 sq. ft.

New retail formats, meanwhile, are moving up the list. For example, three membership warehouse operators make it to the Top 25 Gross Square Footage Big Builders rankings this year, compared to only Pace in 1987.

Home Depot, whose 10th anniversary coincides with a decade of growth for home center warehouse retailing, this year is planning its greatest single-year expansion. The company plans to add an estimated 2,100,000 sq. ft. of space, up 50% from last year's 1,400,000 sq. ft.

There is no doubt that the continuing wave of mergers and acquisitions in the retail field is making way for new companies to appear among the Top 25.

After all, in this year alone, Campeau Corp. picked up Federated Department Stores, American Stores made a bid for Lucky Stores, and Herbert and Robert Haft made bids for both Stop & Shop and Walgreens. In the future, other names are likely to disappear from the Big Builders rosters in similar fashion.

Another outgrowth of merger and acquisition mania is the number of firms leaving the public market altogether. Stop & Shop and Supermarkets General (not to mention once mighty Safeway) which had appeared on prior years' lists have all taken the private route.

The heavy debt burdens usually incurred by these chains makes rapid expansion, at least in the near term, almost impossible.

All this is changing the make-up of the retail industry's capital expenditures budget. In other words, what many of the new Big Builders have in common is a "warehouse" approach to building.

Cost per square foot to build warehouse-type stores is considerably lower than that of department stores and upper-end apparel specialty retailers.

Still, both ends of the retailing spectrum are continuing to invest in new store space. Companies clearly are more selective than in the past, with many chains preferring this year to open stores in existing market areas, rather than to try to enter new ones.

Market dominance now is a widely-accepted strategy and in the future, it may be the key to which firms continue to have the wherewithal to remain on the expansion path. ■

—Jacquelyn Bivins

Chain Store Age EXECUTIVE

SPECIAL REPORT

A DECADE OF CHANGE 1978-1987

A revolution is occurring in retailing. And, though there is no blood running in the streets, there are many casualties, both physical and emotional, to structures and people.

It is as if a neutron bomb has been detonated. Venerable store names and companies have been ravaged and wiped out. Others have been bleached bone dry of any similarity to their once proud pasts.

There have been no reported suicides from the lopping off of thousands of retail jobs. But retailing today is a shell shocked community. No job is safe. No company is safe.

The last 10 years have produced a barrage of events that have transformed the landscape of retailing as companies merge, acquire, divest, go private, go public, go out of business. New formats emerge, expand, mature. Old formats evolve, or decline.

The last decade has been marked by social and technological shifts that have been as explosive as the end of World War II and the vast societal changes that followed. Relationships have changed between all key players in the retailing dynamic – between retailers and customers, retailers and suppliers, retailers and developers, retailers and government, retailers and workers and between retailers and retailers.

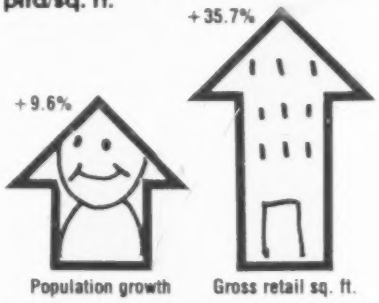
In the pages that follow, *Chain Store Age Executive* highlights the major trends and events of the last decade and takes a wary look to the future of retailing on the threshold of the 1990s.

CURRENTS OF CHANGE: TRENDS THAT SHAPED RETAILING

The store that broke the shopper's back. Back in 1978, according to the International Council of Shopping Centers, there were 19,200 shopping centers equaling 2.498 billion gross square feet of leasable area. They produced $283 billion in sales. That meant that the 222 million Americans each had the equivalent of 11.2 feet of personal selling space where they bought goods at the rate of $113 per capita/sq. ft.

Ten years later there were 30,600 centers totaling 3.7 billion gross square feet. Sales amounted to $584 billion. Since the population had risen to 243 million, per capita space equaled 15.2 sq. ft. and sales per capita/sq. ft. were $158.

Selling space outstripped population growth '78-'87 but productivity remained stagnant at $113 per capita/sq. ft.



Source: International Council of Shopping Centers and U.S. Census Bureau

Thus, though the population increased 9.6%, per capita retail space went up nearly four times as fast, 35.7%. Looking at the sales changes ***after adjusting for inflation*** shows that while total spending went up 47.7%, sales per capita/sq. ft. ***remained the same.***

Some states are more overstored that others. Delaware has a per capita average of 33 square feet of shopping center space. Florida, Colorado and Arizona are right behind it at 32. California has only 21, New York just 13. But the least developed is South Dakota with 9. Other key states are Texas 25, Georgia 24, Massachusetts 19, Illinois 18, Pennsylvania 17, and Michigan 15.

The vanishing middle. The rich get richer, the poor get poorer and the middle gets squeezed. That's what Michael Dukakis is saying, and when it comes to retailing, he's right. Stores catering to the upper end or the lower end of the customer spectrum have done well. Stores positioned in the middle, Sears Roebuck, & Co., being the prime example, have fared poorly.

Sears, J.C. Penney, Montgomery Ward, K mart, and a host of middle of the road department stores succeeded through earlier decades by being jacks of all trades but masters of none. The strategy of serving the broad customer base of middle America came apart during the last 10 years. The nation changed demographically and psychographically.

To appeal to the new consumer, specialty stores, and pinpointed departments like The Cellar in Macy's, took shopping from the bland to the exhilarating. The Limited's visual merchandising and unique products set the pace for apparel sales. Home centers became a force in hardware and building supplies, prompting Sears to rethink its merchandising and Ward to virtually abandon the field. Specialty stores have come to dominate virtually every merchandise category. Even supermarkets reacted by introducing specialty departments—bakeries, flower shops, and delis.

Who needs a store, anyway? Shopping at home began more than 100 years ago with the first of the great catalog merchants, Aaron Montgomery Ward. But its heyday had long since passed until societal and technological changes made non-store retailing exciting again. The advent of the dual income household made disposable time as much a consideration as disposable income. After working all day, the missus just didn't have the time, energy or inclination to tramp through stores. *But she did have money.* And through the brilliantly illustrated and explained catalogs that flooded her mailbox, she was able to buy from companies who understood her. Understood her because they made use of modern computer technology that targeted specific household buying habits. Non-store retailing is now a $56 billion a year industry, having doubled in size in 10 years to include everything from food to housewares, toys to electronics. Aside from catalogs, the segment includes direct response mail stuffers inserted into monthly bills, the most controversial element – television shopping shows – and the most underdeveloped, electronic interactive shopping.

Sale of the century. Sometime during the last 10 years a new calendar was printed *just* for retailers. It was a calendar that had "sale" written on every month, every week, every day. Textiles had white sales every month. Price breaks for bathing suits Memorial Day instead of Fourth of July. Double, no triple, coupons to rope the customers in. The reasons for the plethora of price promotions may have seemed justifiable when they began, but the net net result is that today customers are conditioned to buying on sale. Indeed, studies have shown that anything less than 25% off is not considered a sale.

What's a retailer to do? More and more are adopting the tactic that has worked well for Toys "R" Us and Wal-Mart – everyday low prices. Even Sears is testing the idea in Wichita. Of course, Wal-Mart and Toys "R" Us are operating from historical strength and integrity. It requires executive fortitude to change from a promotional formula to everyday low prices.

The discount evolution. Ten years ago it would have been fashionable to talk about the discount *revolution*. Today, it is the ***evolution*** of the discount store that commands attention. Discounting has evolved from being just a full-line format. Dominated by a handful of full-liners benefiting from the troubles of smaller regional chains, the discount industry has sprouted offshoots including off-price apparel, warehouse wholesale clubs, and hypermarkets. Catalog showrooms, however, stagnated.

Discounting also became important in drug stores with deep discount drug stores a la Drug Emporium. And the already price conscious grocery business looked for pricing advantage from warehouse stores.

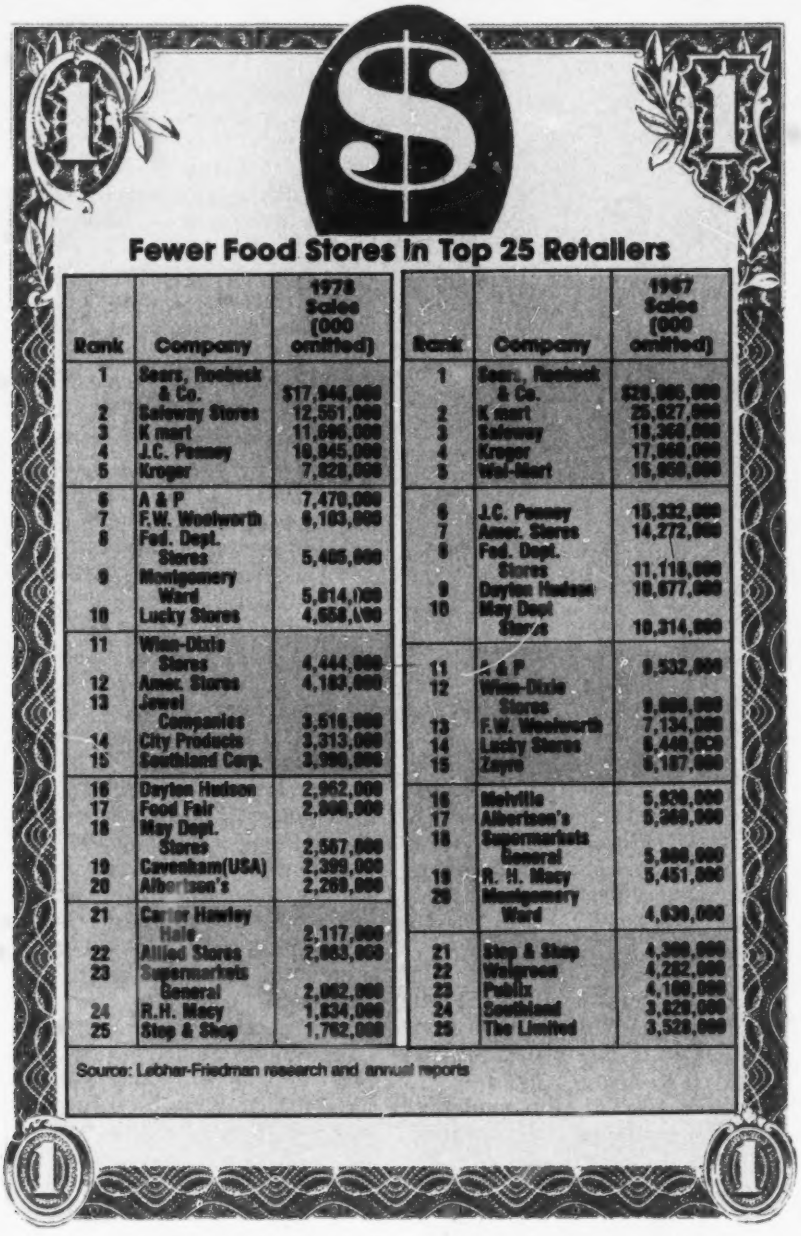
Sale prices have to be at least 25% off to stimulate customer interest.

Diversification, and its sometimes blues. Wal-Mart, K mart and F.W. Woolworth are examples of companies that have diversified with success from their mainstream businesses. Zayre, Service Merchandise and Revco are examples of companies that did not, though, with Zayre it appears that the new enterprises have performed better than the neglected discount store base.

Regardless of the outcome, diversification has been a major strategy during the last 10 years, and ironically, now is one of the reasons why leveraged buyouts are possible. New owners believe they could pay for their acquisition by selling off some of the diversified divisions.

Successful companies diversified into areas they knew well. Almost all of Wal-Mart's and K mart's efforts, with the latter's Waldenbooks division the only exception, have been in different fields of discounting, such as warehouse wholesale clubs or discount drug stores. Woolworth, once it closed its Woolco discount division, leaped ahead with specialty chains from its Kinney Shoe division, and with specialty stores carved out of niches from its variety store merchandising history.

Hardly any major retailer failed to take some action on the diversification scene during the last decade. Retailers either entered the fray, as did Federated, Kroger, Sears, and Penney, or got out of it, as did Montgomery Ward, Lucky and Supermarkets General.



Fewer Food Stores In Top 25 Retailers

Rank	Company	1978 Sales (000 omitted)	Rank	Company	1987 Sales (000 omitted)
1	Sears, Roebuck & Co.	$17,946,000	1	Sears, Roebuck & Co.	$28,085,000
2	Safeway Stores	12,551,000	2	K mart	25,627,000
3	K mart	11,596,000	3	Safeway	18,300,000
4	J.C. Penney	10,845,000	4	Kroger	17,860,000
5	Kroger	7,928,000	5	Wal-Mart	15,959,000
6	A & P	7,470,000	6	J.C. Penney	15,332,000
7	F.W. Woolworth	6,183,000	7	Amer. Stores	14,272,000
8	Fed. Dept. Stores	5,405,000	8	Fed. Dept. Stores	11,118,000
9	Montgomery Ward	5,014,000	9	Dayton Hudson	10,677,000
10	Lucky Stores	4,658,000	10	May Dept Stores	10,314,000
11	Winn-Dixie Stores	4,444,000	11	A & P	9,532,000
12	Amer. Stores	4,183,000	12	Winn-Dixie Stores	9,008,000
13	Jewel Companies	3,516,000	13	F.W. Woolworth	7,134,000
14	City Products	3,313,000	14	Lucky Stores	6,448,000
15	Southland Corp.	3,190,000	15	Zayre	6,187,000
16	Dayton Hudson	2,962,000	16	Melville	5,930,000
17	Food Fair	2,600,000	17	Albertson's	5,269,000
18	May Dept. Stores	2,567,000	18	Supermarkets General	5,006,000
19	Cavenham(USA)	2,399,000	19	R. H. Macy	5,451,000
20	Albertson's	2,269,000	20	Montgomery Ward	4,630,000
21	Carter Hawley Hale	2,117,000	21	Stop & Shop	4,300,000
22	Allied Stores	2,083,000	22	Walgreen	4,282,000
23	Supermarkets General	2,062,000	23	Publix	4,100,000
24	R.H. Macy	1,834,000	24	Southland	3,829,000
25	Stop & Shop	1,762,000	25	The Limited	3,528,000

Source: Lebher-Friedman research and annual reports

Brave new financial world. Ten years ago the retail world gasped as Brascan proposed a takeover of F.W. Woolworth that would have resulted in a $700 million debt. Peanuts when compared to today's billion dollar leveraged buyouts and hostile acquisitions. LBOs, IPOs, mergers, acquisitions, buyouts, greenmail. No company was safe from market overtures, or can consider itself safe as long as someone believes its part are more valuable than its whole. Some, like Carter Hawley Hale, have had to face repeated challenges. And size, alone, is no longer a deterrent, given the Safeway LBO and rumors that K mart has been considered a candidate.

LBO activity includes Southland Corp., Supermarkets General, Rickel Home Centers, Channel Home Centers, Jack Eckerd, Revco D.S. and R.H. Macy.

Courtesy of Merrill Lynch, here-with an alphabetical list of companies that made multiple, major acquisitions during the last 10 years. In some cases, an acquiring company later was acquired itself (such companies are printed in bold):

Allied Stores, Amcena, American Stores, Ames, **Associated Dry Goods,** Batus, Best Products, Campeau Corp., Carson Pirie Scott, Circle K, Dayton Hudson, Dillard, Jack Eckerd, **Federated Dept. Stores,** Fleming Cos., A & P, K mart, Kohlberg Kravis, Kroger, The Limited, Lucky Stores, Malone & Hyde, **Marshall Field,** May Dept. Stores, Melville, National Convenience Stores, J.C. Penney, Petrie Stores, Revco D.S., Rite Aid, Sears, Service Merchandise, Southland Corp., Standard Brands Paint, Super Valu Stores, Tandy Corp., U.S. Shoe, Walgreen, Wal-Mart, Wetterau, F.W. Woolworth and **Zayre.**

The human side of all the financial activity: more than 10,000 retailers let go.

Developers as retailers. Retailers often owned their stores, a condition that made many a balance sheet very attractive when real estate holdings escalated in value. Department store companies even developed and owned shopping centers. During the last decade many companies sold off their properties to reduce their appeal as takeover targets, to concentrate on their primary businesses, or to raise needed capital.

Now new ground is being broken at almost every turn as developers scoop up retailers. Crown American began the trend when it acquired Hess's Department Stores in 1979. A developer of shopping centers in middle markets, Crown American thought Hess's would be a perfect anchor. Hess's has grown from 16 to 71 stores.

Campeau Corp.'s daring acquisitions of first Allied Stores and then Federated have capped a tower of activity by developers. L.J. Hooker, an Australian developer, purchased B. Altman's, Bonwit Teller, Sako-

witz and part of Parisian. Taubman Co. owns Woodward & Lothrop and John Wanamaker. DeBartolo joined with Dillard to make an offer for Higbee's.

By securing such prestige nameplates as Bloomingdale's and Bonwit's, developers are hoping to make their projects more attractive. Meanwhile, other developers may find it harder to land the tony stores and some retailers who would like to lease anchors might be locked out.

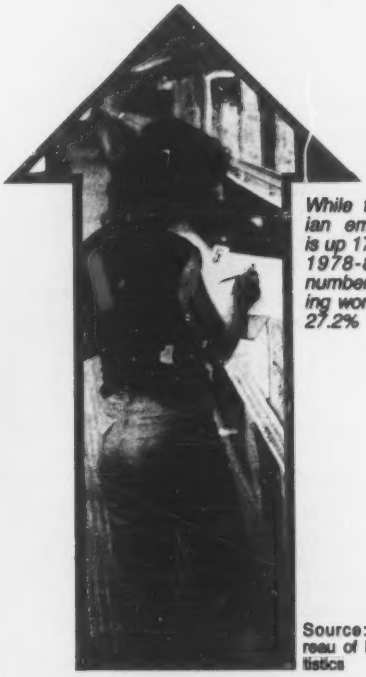
A choice of stores. Stores that succeeded made a conscious choice. They either became destination stores or stores that provided shopper covenience. Destination stores have distinguishing characteristics. Some provide fashion leadership, as do Bloomingdale's and Crate & Barrel. Some offer price leadership, such as the Price Club, Home Depot and Drug Emporium. Others, such as Nordstrom's, provide extraordinary service. In depth inventory is the point of departure for category killer stores like Sportmart. Stores that chose the convenience route keyed into high traffic locations and developed systems that hastened transaction times and developed inventory management for high velocity items.

Stores were not the only entities to become destination points. Shopping centers always have been magnets for customers, but in the last 10 years they developed even stronger appeals. Megacomplexes, like those built in Tyson's Corner, Va., and Torrance, Calif., attract tens of thousands each day. Outlet and off-price malls drew shoppers searching for bargains. Convenience, however, seems to be a major trend from developers, too. The fastest growing segment of the shopping center industry is the under-100,000 gross square foot complex.

***Destination stores like IKEA** attract customers with price and inventory.*

Working women. Perhaps no trend has had a more profound impact on retailing than the accelerated presence of women in the workforce. Their liberation from the kitchen into the business world has changed society and the way retailers market. Take toys, for example. More women working outside the home has, in the opinion of Charles Lazarus, founder and ceo of Toys "R" Us, created a class of customer that buys toys year-round because of guilt, guilt that they are not home with their children.

Ten years ago 41.2% of all workers 16 year and older were women. A decade later women comprised



While total civilian employment is up 17.1% from 1978-87, the number of working women is up 27.2%

Source: U.S. Bureau of Labor Statistics

44.8% of the work force. Seen another way, women's participation in the labor pool have vastly outpaced overall employment gains. The total number employed increased 17.1% from 1978 to 1987, according to the Bureau of Labor Statistics. The total number of women employed, meanwhile, raced ahead by 27.2%. Their greater presence in the work place, particularly in professional positions, as much as any other factor was a key reason why mini skirts failed to excite customers to buy during the last year.

***Superstores seized** market share by advertising sharp prices and deep inventory.*

Pledge of Allegiance. George Bush may want to start each day with a mandatory Pledge of Allegiance, but American consumers are far from a loyal lot. Rather, studies have shown that the overlapping of merchandise from one store to another, and from one store concept to another, has provided more intercept opportunities and divided customer loyalties. No longer does the customer have to go to a drug store for a wide range of analgesics; a supermarket or discount store will do fine. And electric coffee makers can be bought in combo stores, thank you. K mart has acheived $500 in sales per sq. ft. from test stores featuring a full packaged deli department. Most of its stores regularly carry 177 food skus and as many as 1,100 skus during promotions. Food sales have increased 16%, 29% and 30% during the last three years.

Retail success has come from stealing market share from competitors, not from pure store growth. And that can be accomplished only because shoppers are more than ready to transfer their allegiances to different stores.

Similarly, consumers are less loyal to specific brands, though they still want recognizable name brands that provide reliable quality at reasonable prices.

Superstores, the powers in retailing. From the depths of bankruptcy Toys "R" Us emerged in the late 70s as the prototype of the superstore, the type of retailer that so dominates its competition that it becomes a year-round headquarters store for its classification of merchandise, thereby driving out marginal operators from carrying product even during the height of a selling season. Sharp pricing, huge inventory selection at all times, and heavy advertising cemented the market positions of such stores as Circuit City, Best Buy, Bookstop, Staples, Home Depot, IKEA, and Highland Appliance.

To be sure, some superstores did get touched by Kryptonite. Crazy Eddie and The Federated Group are two examples of electronics chains that wavered. Overall, however, superstores have been a dominant merchandising force.

Retail technology. Ten years ago front end scanning was so new in supermarkets that monthly totals were kept on how many stores installed them. Today, it's news if a store doesn't put them in. And not just supermarkets – with the acceptance of UPC as the common denominator discount stores are rapidly embracing scanners, as are some department stores.

The last decade has also brought almost universal acceptance of planograms (many computer generated) and daily inventory monitoring via sophisticated POS systems. Direct Product Profitability is enhancing supermarket, drug store and discount store operations by measuring the true earnings contributions of each sku. Even department stores are talking about using DPP.

Chains like Penney and Wal-Mart have installed headquarters-store satellite communications networks. Computer to computer linkups with suppliers (electronic data interchange) have reduced the ordering time and improved inventory flow and sell-through. The total effect is that many retailers have been able to sharpen their product assortments more rapidly and improve their operational ratios.

The pig in a python, better known as the baby boom making its way through life. The generation conceived after World War II has, is and will continue to affect everything from school construction, merchandise trends, fast food, Club Med, and retirement villages. Stores like The Limited and The Gap grew up with them. Stores like

Sears and A & P failed to and seemed to totter on the brink. A & P has regrouped. Sears is still trying, trying to believe that baby boomers are now part of the middle Americana that Sears always serviced. Of course, these middle Americans are different than any other generation. Fewer are part of that great Sears stereotype family of two parents (one working) with two kids living in a detached single family house.

Population by Age Breakdown (In millions)

Age Group	Year 1987	Year 1995	% Chg	Year 2000	% Chg
Under 10	37	38	2.7	36	(5.3)
10-19	34	36	5.9	36	5.9
20-29	42	36	(14.3)	36	(2.8)
30-39	49	44	10.8	41	(6.8)
40-49	28	38	35.7	42	10.5
50-59	22	25	13.6	31	24.8
60 & over	41	44	7.3	45	2.3
Total	244	261	7.0	268	2.7

Source: Bureau of Census mid-range projections and Prudential-Bache Securities, Inc.

The aging of the baby boom generation will affect merchandising and operations.

Value. No term has been more appropriated over the last 10 years. Once thought to be no more than price divided by quality, value came to mean much more. It encompasses a host of attributes that stores must possess and distribute to enhance the total offering. It includes, in descending order of importance, having quality merchandise, good prices, good location, the look of the merchandise, an enjoyable shopping environment, sales/specials, clean stores, a good return/exchange policy, good assortments, good inventory position, knowledgeable sales help, and good advertising. Those stores that have demonstrated the ability to deliver good value have been the ones that have remained strong over the years. During the last two years, better customer service has become an industry catch phrase as retailers look for ways to distinguish themselves.

LOOKING TO THE FUTURE: THREE TRENDS TO WATCH

America for sale . . . cheap! The British are buying, and so are the French, Germans, Italians, Australians, Canadians, and Japanese. It may be helping the federal balance of payments, but the fact remains that American retail units increasingly are showing up in foreign hands, and not with the disastrous results of Agache-Willot's dalliance with Korvettes or Hugo Mann's experience with FedMart. The Tengelmann Group's belief in A & P is paying off (its 53% ownership of A & P is worth about $870 million, compared to its $125 million investment) and Grand Union is performing well for Generale Occidentale of France. Australian developer L.J. Hooker and Canadian real estate magnate Campeau have invested heavily in department stores. Dylex (Canada) bought specialty units but is backing off of late. Japan's Jusco picked up the slack, acquiring The Talbots from General Mills. And Britain's Marks & Spencer outfitted itself with one of the more prestigious U.S. names, Brooks Brothers.

Foreigners are not just content to buy. They are also exporting, as the proliferation of Benetton shops on seemingly every urban street corner can attest. Carrefour has brought its hypermarket ideas to America, first as part of a joint venture with Super Valu (Biggs) and then as a store in its own right. With the dollar weaker abroad and with

expectations that business climates are better here than in their native countries, offshore investors will continue to find U.S. retailing attractive.

Of course, the purchasing frenzy is not confined to foreigners. Retailers, with prime real estate holdings, depressed stock prices compared to overall value, little stock ownership in corporate hands, and diversified or far-flung operations that could easily be packaged and sold, are prime targets for raiders. The Dart Group Corp., led by Herbert and Robert Haft, are making their way up and down the alphabet, with actions aimed at Dayton Hudson, Kroger, Safeway, Stop & Shop, Supermarkets General, Walgreen, F.W. Woolworth and Zayre.

The raiders often succeed even when they fail to gain control as they generally come away with millions of dollars in greenmail or profits from the sale of their appreciated stock. While some retailers benefit from the exercise by making cutbacks that perhaps should have been made without the takeover threat, many organizations suffer from lower productivity reduced by worker distraction. And customers suffer, too, as management, instead of being retailers, becomes pre-occupied with asset management and wall Street.

Don't look for any abatement of the trend. Even last year's stock market crash, which did save Dayton Hudson from the Hafts, has not snuffed out the threat.

Labor pains. The go-go years of retail growth of the 60's and 70's and into the 80's had more than brick and mortar at its foundation. Someone, after all, had to work the stores – bag the groceries, ring up the sales, count the inventory, drive the forklifts, design the stores, punch in the computer codes.

For the most part, particularly at store level, that someone was the product of the baby boom. But now, at least until 1995, retailing will be victim of the baby bust. Retailers will find themselves critically short of sufficient low cost employees to work what seem to be round the clock store hours. Experts are predicting shortages of 1 million workers. Organizations will have to recruit more aggressively with more appealing compensation packages.

At the same time, retailers will have to overcome added costs that will emanate from Washington. Though the minimum wage bill failed to pass this year, some increase is expected to win congressional approval, perhaps next year. And Congress is considering other legislation that could add to operators' costs with such bills as minimum health benefits and minimum parental and medical leaves. Already this year the Feds outlawed almost all polygraph tests.

C 3PO and R2D2, retailers of the year, 1995. Not as far-fetched as it may sound. Artificial Intelligence Expert Systems are coming to retailing and will have the capability to interact with customers and suppliers. They'll be able to sell specific products based on *customer* wants, plan merchandise assortments and store design based on retailer plans, schedule staff and much more. The emerging systems will be high tech-high touch, particularly for consumers who will be able to inspect the merchandise on the spot, thus overcoming one of the main drawbacks to interactive in-home selling systems.

Technology also will be more universally available. No longer a tool of just the very big retailer, technology such as scanners and Electronic Data Interchange will be common to even one or two unit shops. Given the future labor shortage, merchants will have to turn to the C3POs and R2D2s of the future.

Department stores are the fashion leaders but trail discount and specialty stores in productivity.

DISCOUNTERS AND SPECIALISTS WIN MERCHANDISE BATTLE

During the last 10 years department store retailing has suffered a 2% *reduction* in inflation adjusted sales per square foot. Sales per square foot of selling area, as compiled by the National Retail Merchants Association, went from $103 in 1978 to $141 last year. But after subtracting the effects of inflation, as measured by the inventory price index for department stores prepared by the Bureau of Labor Statistics, sales per square foot in 1987 actually *fell* to $101.

Pre-tax income for department stores *declined* to 4.36% of sales from 5.32%.

During that same time span, specialty store sales increased an inflation adjusted 8.1% to $219 per net square foot. Pre-tax earnings rose to 3.68% of sales from 3.19%.

Meanwhile, full-line discount store sales per square foot jumped an inflation adjusted 46.7% to $127 and pre-tax earnings soared to 4.68% of sales from 3.70%.

The productivity results in large part bring into focus the changing nature of general merchandise retailing over the last decade as discount and specialty stores gained greater market penetration and department stores lost shares. Sears, Roebuck & Co., J.C. Penney and Montgomery Ward, with their sights set mainly on the traditional middle class family, also gave up market share to stores above and below their target customer.

The transfer of customers from the large national chains and department stores to more tightly focused discounters and specialists is partly a result of a decade of unprec-

edented format development, expansion, evolution and, at times, contraction in the discount and specialty fields.

Among the entries have been off-price apparel stores like Ross Stores, superstore electronics chains like Circuit City, wholesale warehouse clubs a la Price Club and Costco, hypermarkets like Hypermart USA, and category killer stores modeled after Toys "R" Us in such fields as sporting goods (Sportmart).

Ten years ago discount retailing mainly meant full-line stores, the likes of K mart, Wal-Mart and Target. Their sales totaled an estimated $50 billion. Those stores are still around today, but discounting has gone far beyond those pioneers. Today, discounting's $132.5 billion volume includes off-price apparel stores ($9.9 billion), warehouse wholesale clubs ($11.8 billion), and specialty discount stores ($19 billion). Full-line discount store volume hit $84.9 billion last year.

Catalog showrooms experienced setbacks during the last decade. After a period of consolidation into two major entities, Service Merchandise and Best Products, the catalog showroom industry hit the skids as the two largest organizations veered from their original concepts and lost millions. Overall, the showroom industry has failed to grow significantly in the last 10 years and is now a $6.9 billion business.

Despite the travails of the catalogers, discounting remains the predominant form of product distribution in general merchandise retailing. But the number of key full-line players, just as in the catalog showroom segment, continues to shrink. Mid-size regional chains have had difficulty competing against the giants. The attrition rate has been heavy. In the last two months alone, two billion-dollar companies, Gold Circle and Zayre, have been forced to sell out.

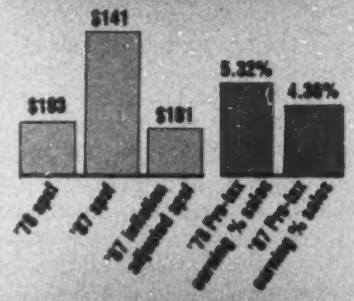
So far, Target and Ames have been the most direct beneficiaries of the shakeouts. Target has expanded by the demise of Ayr-Way, Fed-Mart, Gemco, and, now, Gold Circle. Ames, which is buying Zayre, earlier bought Neisner, Kings and G.C. Murphy.

K mart and Wal-Mart have grown mostly from within during the last decade. Actually, K mart's discount store total has remained fairly constant as the company concentrated on upgrading store presentation and merchandise. Though Wal-Mart did pick up some 100 Kuhn's Big K stores in 1981, it grew mainly through an aggressive store construction program.

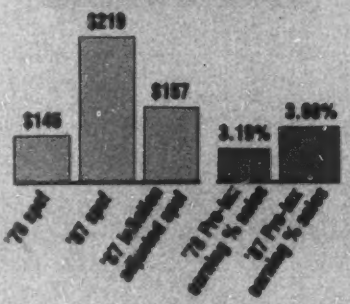
Both K mart and Wal-Mart have grown through diversification, K mart through acquisitions, Wal-Mart through internal startups of new divisions. Wal-Mart has been faster off the mark to enter the warehouse wholesale club business

Productivity report

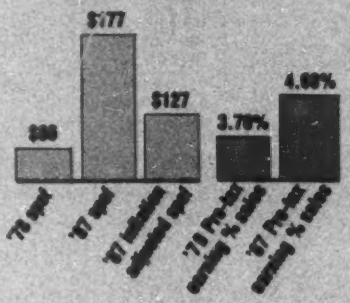
Department stores decline



Specialty stores improve



Discount stores soar



Source: International Mass Retail Association

and the hypermarket field. It also has been technologically more advanced than K mart and the rest of the discount field in distribution, MIS capacity, and communications from headquarters to stores and from retailer to vendor.

During the last ten years discount stores worked hard to increase their soft lines sales by actively seeking branded merchandise and by improving the quality of their ready to wear. With the upgrading done by Penney, many discounters were able to raise the taste levels of their offerings. Still, their primary focus remained hard lines where they are the primary outlet for home textiles, housewares, and sporting goods.

Apparel remains the life and breath of department stores, so much so that many are slicing more and more hard lines departments out of their stores. But the apparel focus has shifted during the last 10 years from a spotlight on designer labels to private labels. Why? Because each department store needed to display merchandise that differentiated itself from its competition. And better margins were needed to overcome the rampant price promotions that resulted from the competition from off-price stores.

Consolidation, both intra and inter company combinations, have marked the 10 year period. Moreover, store size reduction programs have occurred in many downtown locations as retailers sought to improve productivity by lopping off both excess management and space.

At the start of the decade department stores were almost catatonic in their response to the off-price challenge. They seem to have rebounded but now are apoplectic about the Nordstrom effect. The phenomenal success and growth record of Nordstrom, based on pinpoint local merchandising and supported with outstanding customer service from a commissioned sales staff, have department stores re-evaluating their operations. Many are re-writing their customer service and compensation programs. But it is still unclear if these latter day converts will

Time Takes Its Toll on Discounters

Rank	Company	1978 Sales (000 omitted)	Rank	Company	1987 Sales (000 omitted)
1	K mart	$11,206,000	1	K mart	$22,148,000
2	Woolco	2,614,000	2	Wal-Mart	13,243,000
3	Gibson	1,436,000	3	Target	5,306,000
4	Zayre	1,199,000	4	Zayre	3,286,000
5	Wal-Mart	962,000	5	Meijer	2,548,000
6	Gemco/Memco	938,000	6	Ames	2,112,000
7	Target	899,000	7	Bradlees	2,063,000
8	T.G. & Y.	715,000	8	Fred Meyer	1,848,000
9	Kervettes	628,000	9	Hills	1,514,000
10	FedMart	580,000	10	Caldor	1,502,000
11	Two Guys	573,000	11	Roos's	1,337,000
12	King's	532,000	12	Venture	1,282,000
13	Bradlees	530,000	13	ShopKo	1,190,000
14	Roos's	500,000	14	Gold Circle	976,000
15	Hills	485,000	15	Jamesway	781,000
16	Caldor	476,000	16	Fedco	706,000
17	Venture	461,230	17	Pamida	623,000
18	Fred Meyer	456,000	18	Hook's	418,000
19	The Treasury	400,000	19	Fisher's Big Wheel	335,000
20	Gold Circle	370,000	20	Clover	330,000
21	Cook United	360,000	21	Alco	323,000
22	Murphy's Mart	346,000	22	Value City	303,000
23	Meijer's	320,000	23	S.E. Nichols	290,000
24	Pamida	319,000	24	Ann & Hope	258,000
25	Fedco	312,000	25	Bi-Mart	240,000

Source: Lebhar-Friedman research/annual reports

Specialists Take

Rank	Company	1978 Sales (000 omitted)
1	Melville	$1,747,000
2	Interco	1,129,000
3	Genesco	1,045,000
4	Rapid American	999,000
5	Brown Group	984,000
6	Zale	984,000
7	F. W. Woolworth	793,000
8	Edison Bros.	739,000
9	Western Auto	683,000
10	Hart, Schaffner & Marx	667,000
11	American Can	483,000
12	Fabric Stores	436,000
13	U. S. Shoe	384,000
14	Lane Bryant	366,000
15	Toys "R" Us	349,000
16	Morse Shoe	336,000
17	Outlet Co.	307,000
18	Gordon Jewelry	282,000
19	The Gap	280,000
20	Tandycrafts	246,000
21	The Limited	203,000
22	Miller Wohl	165,000
23	Spencer Gifts	160,000
24	Volume Shoe	156,000
25	Pep Boys	155,000

Source: Lebhar-Friedman research/annual reports

be able to effectively compete with the traditional orthodoxy of Nordstrom's ways.

Nordstrom is a prize jewel for any regional shopping center, and the Seattle-based retailer is making its way east. A new store in Tyson's Corner, Va., is reportedly en route to a $100 million opening year.

But while Nordstrom is a public company, albeit with a sizable family holding, it is becoming the exception. Some of the largest department store entities are now privately owned or part of conglomerates, notably real estate development companies.

Australian-based L.J. Hooker owns B. Altman, Bonwit Teller, Sakowitz, and part of Parisian, while R.H. Macy and Elder Beerman, among others, went private.

Campeau Corp. owns many of the former Federated and Allied Stores department store divisions, having bought them in two celebrated acquisitions which eventually led to the dismemberment of the companies as they were once constituted. To pay off the debt incurred, Campeau has sold off most of the two companies' non-department store units and several of the big stores, too, notably Foley's to May and Bullock's to Macy.

While Nordstrom has been the role model for customer service, other role models have existed for inventory position, private label and chainlike buying, and for state of the art information systems.

Dillard has been the prototype for the latter. Its sophisticated POS terminals have permitted it to buy underperforming divisions from Associated Dry Goods, Dayton Hudson, Macy and Allied and turn them into moneymakers. In 10 years Dillard has grown from a backwater retailer with $331 million in sales from 41 units into a formidable $2.2 billion, 138 store empire.

Equally adept and disciplined, Mercantile Stores has remained successful by staying in secondary markets. Its tight controls include central buying and a uniform private label program.

Heavily promotional, Macy was the envy of other retailers with its

Hard Lines Tack

Rank	Company	1987 Sales (000 omitted)
1	Melville	$5,930,300
2	The Limited	3,927,900
3	Tandy	3,452,000
4	Toys "R" Us	3,137,000
5	F. W. Woolworth	2,560,000
6	U. S. Shoe	2,107,000
7	Sensitron	1,800,000
8	Circuit City	1,350,400
9	Petrie Stores	1,241,500
10	The Gap	1,082,000
11	Western Auto	931,000
12	Herman's	762,000
13	Highland Appliance	753,400
14	Silo	750,000
15	Child World	749,000
16	Charming Shoppes	638,700
17	Dayton Hudson (Lechmere)	636,300
18	Northern Automotive	625,000
19	Hartmarx	583,000
20	Ross Stores	570,000
21	Pep Boys	553,000
22	Phillips Van Heusen	500,000
23	Thrifty Corp.	494,000
24	Burlington Coat Factory	491,000
25	General Mills	490,000

Consolidation Affects Department Stores

Rank	Company	1978 Sales (000 omitted)	Rank	Company	1987 Sales (000 omitted)
1	Federated	$5,405,000	1	Federated	$7,291,300
2	Dayton Hudson	2,961,000	2	May	6,205,000
3	May	2,568,900	3	R. H. Macy	5,210,416
4	Carter Hawley Hale	2,116,600	4	Carter Hawley Hale	2,667,774
5	Allied	2,082,700	5	Allied	2,600,000
6	R. H. Macy	1,834,100	6	Batus	2,300,000
7	Associated Dry Goods	1,605,600	7	Dillard	2,206,347
8	Gimbel Bros.	1,058,900	8	Mercantile	2,155,653
9	Mercantile	922,100	9	Nordstrom	1,929,231
10	Belk	892,000	10	Belk	1,831,000
11	Marshall Field	762,400	11	Dayton Hudson	1,552,300
12	Alexander's	432,600	12	Woodward & Lothrop	911,000
13	Garfinckel's	390,816	13	L. J. Hooker	864,661
14	Strawbridge & Clothier	335,600	14	Carson Pirie Scott	573,000
15	Dillard	331,200	15	Alexander's	523,600
16	City Stores	328,152	16	Hess's	500,000
17	Goldblatt Bros.	304,600	17	Strawbridge & Clothier	461,000
18	Nordstrom	297,629	18	Elder Beerman	420,000
19	Carson Pirie Scott	275,200	19	P. A. Bergner	370,000
20	Woodward & Lothrop	271,000	20	Boscov's	337,000
21	Liberty House	246,000	21	McRae's	330,000
22	Higbee's	188,298	22	Jacobson's	326,672
23	J. W. Mays	180,000	23	Higbee's	310,342
24	Elder Beerman	178,700	24	Younker's	291,000
25	H. C. Prange	172,000	25	D. H. Holmes	275,000

Source: Lebhar-Friedman research/annual reports

***Hypermarkets are part** of the segmented discount store industry.*

ability to move tonnage goods. But while Macy had the discipline to take markdowns deep and early, others did not and suffered when they got caught with too much inventory during the economic slowdown of the mid-80's.

Macy also has become a study in microcosm for several other trends that have affected the department store segment. Macy's executives have embraced the philosophy that department store retailing is really a chain store business, that there no longer is a reason for separate, autonomous organizations to exist in many parts of the country.

Accordingly, Macy has united Bamberger's and Macy-New York, preceded by the merger of its Midwest and Atlanta divisions (Macy subsequently sold the Midwest stores to Dillard).

Chain store retailing also meant that Macy could export its stores to cities, such as Miami, New Orleans and Houston, where it never had a presence.

For years Edward Finkelstein, Macy's intense chairman, doggedly defended the company's pursuit of a department store-only strategy. He repeatedly downplayed specialty stores as a potential growth vehicle, saying Macy would stick to its knitting. But even Finkelstein has come around as Macy joined the era of specialization with Aeropostale.

Ten years ago specialty stores already had become formidable competitors. But their influence was mostly apparel oriented, at least in the chain store segment. More than half of the top 25 specialty chains were apparel-based. By the end of 1987, hard lines chains, led by consumer electronics giants like Circuit City and Highland Appliance, had gained parity with the apparel chains in the top 25.

Interestingly, diversification in the specialty store business also has occurred. Not content to be the biggest toy retailer, Toys "R" Us is now the biggest children's wear retailer with its Kids "R" Us chain. The Limited has been the biggest practitioner of diversification, moving from its original juniors chain to a retailer of intimate apparel, large size apparel and now even men's wear.

But not even specialty stores have been immune to problems. Tandy's venture into name brand electronics with McDuff stores and The Gap's initial success with Banana Republic have proved problematic.

Arguably the most troubled chains over the last 10 years have been the massive national chains of Sears, Penney and Ward. Each has struggled to redefine itself, with varying degrees of success.

Each company has gone through top management and strategic changes. The most daring transformation appears to have been made by Ward. Under Bernard Brennan the company has closed its catalog operation, sold off its discount division, let go of thousands of employees, and redefined itself as a series of specialty shops that excluded many traditional lines such as toys and home improvements. It has resurrected itself from being a corporate embarrassment to former parent, Mobil, to the point where it was spun off by Mobil in a leveraged buyout following two years of record earnings, a far cry from the more than half a billion dollars in losses it incurred at the start of the 80's.

Penney's performance over the last ten years has been erratic. Though it never lost money, as did Ward, its profits have waffled up and down as the company grappled with its mission as the largest regional mall tenant in the country. During the early part of the decade Penney sought to compete head-on with department stores and aggressively sought designer labels. It even landed Halston as the keynote of its effort. But the upscaling failed to capture department store and specialty store shoppers and Penney has retreated to a less fashion forward position.

Penney also retreated it headquarters from New York to Dallas as part of a plan to bring the buying organization and top management closer to field operations. About half of Penney's associates work in central and southern locations, with the rest divided evenly between the two coasts. Even before the move Penney had dedicated itself to rapid communication with the unveiling of the first satellite communication network between headquarters and stores.

Penney also has taken a leadership role in interactive shop at home cable television services through its Telaction subsidiary, currently available in homes in suburban Chicago. Sears, too, is involved in electronic shopping experiments. It has sponsored a videodisc version of its catalog and is now part of a videotext program with IBM called Prodigy already available in Hartford, Atlanta, San Francisco, Los Angeles, San Diego, Sacramento and Santa Barbara.

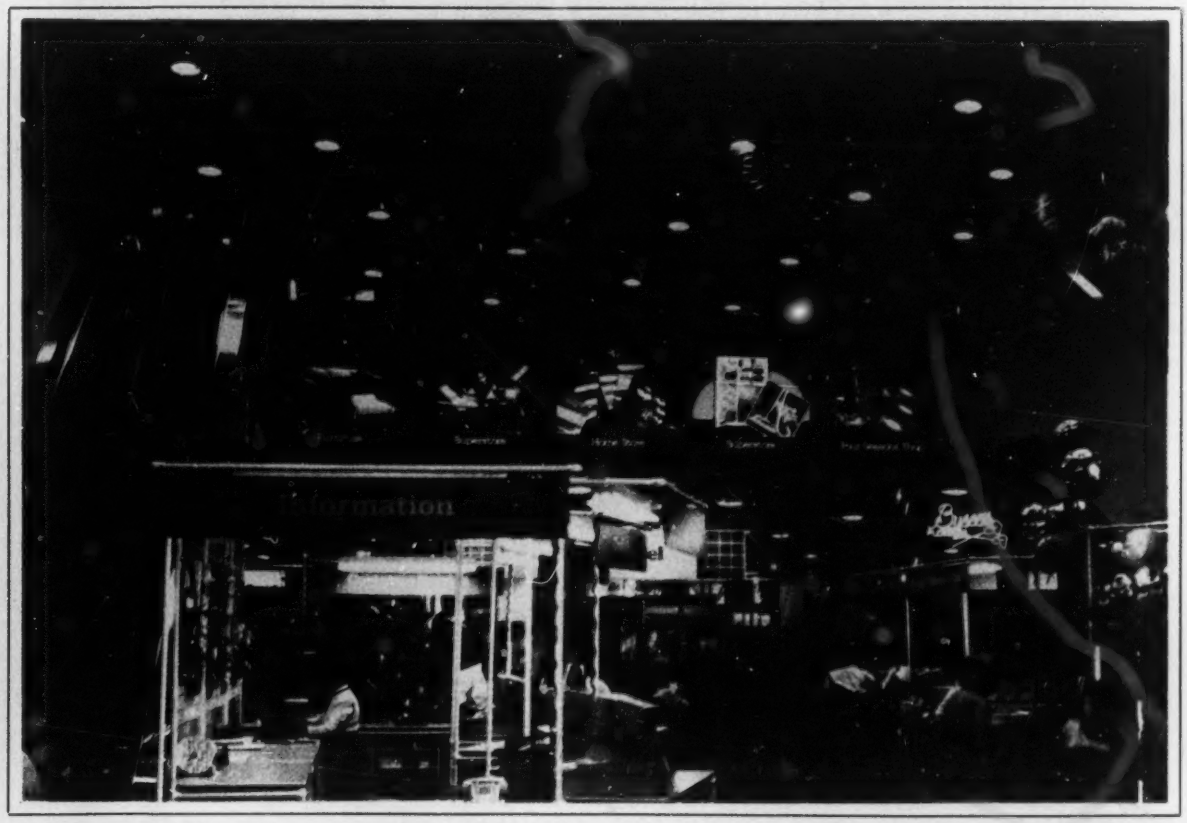
Penney and Sears have been engaged in more than just future competition. Both have proclaimed themselves the only true national department store. But while Penney has chosen to eliminate almost all hard lines from its stores in favor of an apparel and home fashions emphasis, Sears has steadfastly clung to almost all of its core hard lines businesses. And where Penney opened up its private labels for more name brand apparel lines, Sears has been forced to develop its own fashionplates such as Cheryl Tiegs, Arnold Palmer and Stefanie Powers, while reluctantly bringing in national brands in such hard goods categories as electronics.

The problem confronted by Sears, Penney and Ward refuses to go away. Their focus on traditional, homeowning Middle America families failed to keep pace with changing demographics. Being the smallest of the three, Ward may have been faced with the easiest task of turning itself into a specialty-oriented company.

Sears and Penney have dabbled in specialty stores, picking up equity interests or outright buying some chains. But their sheer size makes any acquisition of a less than $1 billion entity a mere footnote on the balance sheet. Of late, Sears has been emulating Ward's approach of opening specialty units dedicated to small parts of its business. But unless major restructuring occurs within Sears Tower, the emphasis will remain on the full line stores. With its emphasis on home goods, Sears' business has been tied to housing starts and home turnover. It has suffered with the increasing inability of families to afford individual home ownership.

The middle of the road stores also suffer during times when there are been no hot products to pull customers into stores. They lack the display and merchandising excitement that specialty stores and more upscale department stores can create.

That is the condition today, though not so during most of the past decade. Perhaps not since the post World War II decade, when pent up consumer demand gorged itself on major and small appliances marketed toward a population that began enjoying the American dream of single family home owner-



***Montgomery Ward** is evolving its stores into specialty units, a strategy that Sears now appears to be contemplating.*

ship, has there been such a prolonged period of product development and public acquisition.
It seemed that almost every department had its individual star.

More than any other product, the video cassette recorder turned the consumer electronics department into a must visit for all customers. The technology alone allowed astute merchants to create eye-focusing displays. Who can forget the dominant effect of a wall of televisions, each blaring the Star Wars theme as Luke Skywalker challenged the Evil Empire? Or the rapt faces of young and old shoppers as they held their breath while Indiana Jones fought snakes and Nazis?

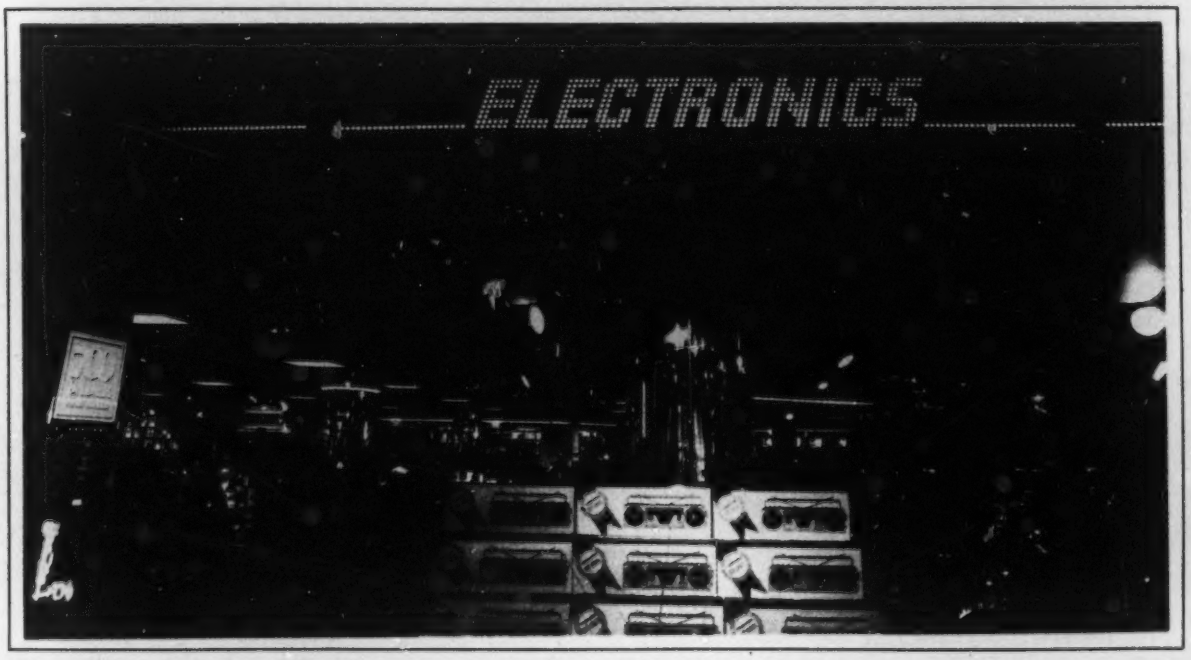
The Japanese, with some assistance from other Asian countries, and a little less help from European and American manufacturers, provided a non-stop assault on the public's electrodes and pocketbooks. Hand-held calculators. VCRs. 13" color TV screens. Projection TVs. Stereo TVs. Camcorders. Walkmen. Telephones. Telephone answering devices. Personal computers. Boomboxes. Radar detectors. Word processors. Keyboards. Blank VCR tape. Pre-recorded VCR tape. Compact disc players. Blank audio cassettes. Electronic typewriters. Fax machines. Personal copiers. Video games.

Polo shirts and jeans captivated consumers during the last decade.

In 1978, consumer electronics sales amounted to some $12 billion. In 1987, CE sales had been galvanized into a $41 billion business, a 242% increase. Electronics, however, did not have a monoply on hot items. Just as the VCR highlighted the electronics frenzy, so did the food processor in the housewares department. With the advent of Macy's Cellar-like boutiques sweeping the country, trendy retailers sought products to go along with the upscale image. The food processor filled their requirements, not once but twice, the second time with the downsized, Oscar-style units.

Sporting goods departments flexed their exercise equipment muscles, while 35mm cameras, both single lens reflex and autofocus models, became the focus of photo/camera buyers, outlasting the disc and instant cameras as the format of choice.

Apparel. One hardly knows where to begin. Each season is meant to be different. But if there was one product that captured the spirit of the last 10 years more than any other it was the polo shirt. The polo shirt emblazened with any animal, from Izod's alligator to Caldor's raccoon to Penney's fox, but most commonly with some equine variation. To show an animal was to immediately display your social sta-



From VCRs to home computers, electronics wizardry dominated hard lines sales increases.

tus. And some chose polo shirts without any creature as an even more profound symbol of snobbishness or self-assurance.

And to wear with your polo shirt . . . designer jeans. Jordache. Calvin Klein. Gloria Vanderbilt. Ralph Lauren. Bill Blass. Guess! In prewashed, stone-washed, acid-washed textures.

Designers have been around for decades, but it was only in the last 10 years that they became plebeian, available to anyone who could read a fanny label and not just to those with discerning taste in formal ready to wear.

Designer boutiques sprouted up in most department stores, and on the sidewalks of many urban streets as knockoffs and counterfeit merchandise tempted the pedestrian.

The proliferation of in-store boutiques is blamed by many for the paralysis that grabbed hold of department stores. By handing over their square footage to designers, department store executives abandoned their roles as merchants and became landlords. Soon, all stores looked alike, causing confusion in the customers' eyes. Sameness destroyed a store's uniqueness, forcing retailers to resort to sales to promote business. And the decline from pricing integrity began.

Retailers of all stripes are embracing an everyday low price strategy which has been a cornerstone of the success of companies like Wal-Mart and Toys "R" Us. Target and other discount stores are emulating the leaders, and even Sears is testing the concept in its Wichita stores.

But it seems doubtful that department stores will be able to adopt everyday low pricing. An attempt to implement the strategy in home textiles failed earlier this decade.

Instead, department stores appear to be locked into high initial markups, followed by deep markdowns (studies have shown that consumers feel anything less than 25% off is not a sale). The net net result may well be a continuation of the trend in which department stores fail to improve productivity.

Buyouts and Competition Affect Supermarkets

Supermarket chains have been "on sale" as much as their merchandise.

Item--The A&P is once more trying to buy Delchamps, the 100 store Mobile, Ala., chain. It has sweetened its last-year's bid by $3.00, making its offering $35 million more than the previous price of $176 million.

Item--The Kroger Co. tried to place $62.5 million of money market preferred stock. The chain is in the midst of a massive restructuring as it tries to thwart a two-pronged acquisition attack.

Item -- American Stores $2.5 billion buyout of Lucky Stores was further delayed when a Federal judged extended his temporary order blocking the sale. The sale, though approved by the Federal Trade Commission, was challenged by California's attorney general who feared the limiting of competition in Southern California. This merger, coupled with Von's acquisition of the area's 172 Safeway, would tend to limit competition and raise prices.

A day in the life of the supermarket business. But more. A symbol of the turmoil and change that has racked the industry for the greater part of the decade. It's genesis was in those twilight years of the late 60's when The Skaggs Drug Co. of Salt Lake City, Utah, partnered with Albertsons, Boise, Idaho, to open a chain of combination stores that spread from Texas to Florida.

These were the new breed of stores, both in size and merchandise offerings and they set the pace for the next two decades and their influence will be carried on into the next.

Safeway Retains Top Spot in Supermarkets

Rank	Company	1978 Sales (000 omitted)	Rank	Company	1987 Sales (000 omitted)
1	Safeway	$12,551,000	1	Safeway	$18,398,000
2	Kroger	7,828,000	2	Kroger	17,000,000
3	A & P	7,478,000	3	American Stores	14,272,000
4	Lucky Stores	4,656,000	4	A & P	9,532,000
5	Winn-Dixie Stores	4,444,000	5	Winn-Dixie Stores	8,000,000
6	American Stores	4,183,000	6	Lucky Stores	6,448,000
7	Jewel Cos.	3,516,000	7	Albertson's	5,000,000
8	Food Fair	2,800,000	8	Supermarkets Gen.	5,000,000
9	Grand Union	2,396,000	9	Stop & Shop	4,300,000
10	Albertson's	2,259,000	10	Publix	4,100,000
11	Supermarkets Gen.	2,082,000	11	Vons	3,200,000
12	Stop & Shop	1,783,000	12	Grand Union	2,746,000
13	Dillon	1,755,000	13	Food Lion	2,467,000
14	Publix	1,730,000	14	Ralphs	2,000,000
15	Fisher Foods	1,452,000	15	H. E. Butt	2,000,000
16	Vons	1,175,000	16	Dominick's	1,740,000
17	Giant Food	1,089,000	17	Fred Meyer	1,700,000
18	First National	955,000	18	First National	1,500,000
19	Walkbaum's	941,000	19	Giant Eagle	1,400,000
20	Fred Meyer	927,000	20	Hy-Vee Food Stores	1,400,000
21	National Tea	918,000	21	Furr's	1,200,000
22	S. M. Flickinger	870,000	22	Bruno's	1,100,000
23	Ralphs	852,000	23	Weis Markets	1,100,000
24	Berman's	784,000	24	Shaw's	1,000,000
25	Red Owl	745,000	25	Berman's	1,000,000

Source: Lebhar-Friedman research/annual reports

Sixty thousand square foot stores with a 60/40 split between food and non-food, they became a potent tool in the emerging demand for one-stop shopping. Their influence on the industry was endemic.

There were immediate followers who saw the advantages of the high-turn, low-gross food with the higher gross but slower turning general merchandise and tried to emulate the Skaggs/Albertson combos. But even those who didn't, and followed the more traditional route were opening bigger but fewer stores.

America was changing. The housewife was rapidly becoming a working wife, a trend that accelerated during the inflation-ridden years of the late 70's and early 80's. By the mid-80's more women were working than staying at home. Her time was at a premium and she expressed her demands at the checkout counter. Surveys of the period showed that she was shopping less often, but buying more during each visit.

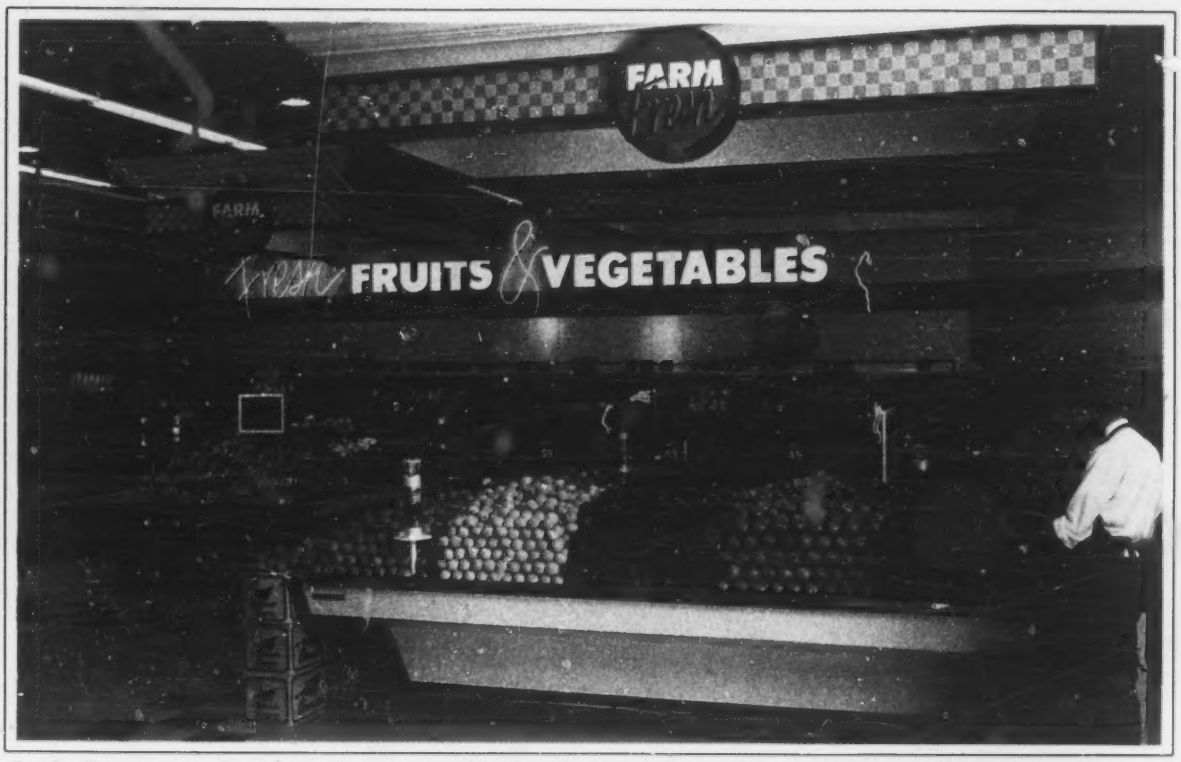
The stage was set for the tumultuous stage that followed. Faced with changing customer demands, real sales just keeping up with inflation, increasing competition from strong regionals, increasing operational costs, the position of the nationals was none too strong. The cost of change came high.

Among the first to feel it was the venerable A&P company which with 1,932 stores in 1978 had already fallen dramatically behind Safeway in both stores and sales. Under successive administrations A&P was shrunk further in size and market scope and was a skeleton of its greatness when it was acquired by Tenglemann Warehandelsgesellschaft in 1980.

James Wood, brought over as CEO from Grand Union, immediately started a cleanup program closing hundreds of stores. He has since opened hundreds of new stores and renovated more than 75% of the survivors. Since 1982 A&P sales per square foot have increased by 17% to $239 but still lag behind the industry average by $199.

Today the A&P is a company transformed. It has used tax credits and an overfunded pension pool, spending over $500 million to acquire companies that added $3 billion of its $7.4 billion in sales. It purchased 63 Kohl supers in Wisconsin, 92 Dominion stores in Ontario, Can. And it strengthened its place in the metro New York area when it bought Shopwell/Food Emporium and Waldbaums. It has bolstered its position in the Philadelphia and Washington, D.C. markets with Superfresh stores, opened Future stores in the more affluent areas and a full style warehouse store called Sav-A-Center.

But the industry was in play. And probably the most enigmatic player of them all during the 1980s was L.S. Skaggs who was the driving force behind the growth of the Skaggs/Albertson powerhouse. When it became apparent Skaggs might be ab-



***Lucky Stores was to have been** the crown jewel in the American Stores empire stretching coast to coast.*

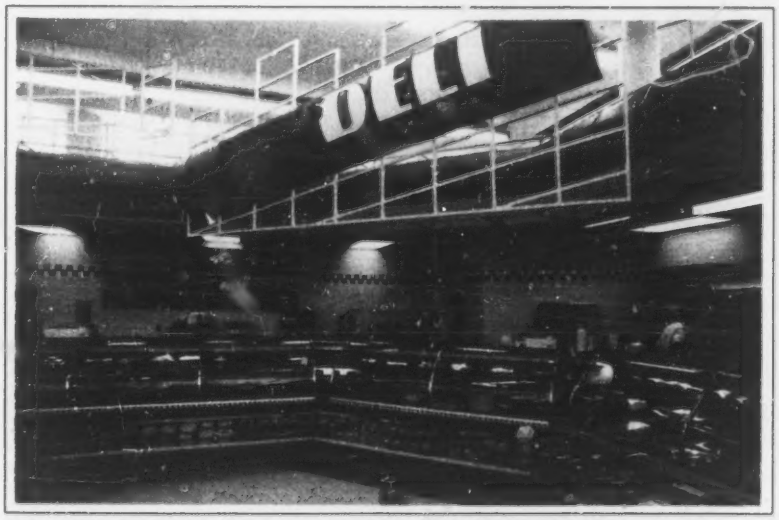
sorbed by the volume driven Albertsons, a chain of which Skaggs' father had been one of the founders, the partnership was dissolved with the assets divided. Skaggs had his foot in the grocery business, taking over the stores in the southwest.

That was the beginning. After two abortive attempts to capture the Jewel Companies, Skaggs turned his eyes eastward to the old-line American Stores Cos. which suffered from a dated plant and was buffeted by strong regionals, such as Pathmark. Skaggs became the American Stores Cos. and not too long after acquired the coveted Jewel Companies.

This gave Skaggs the national coverage that he craved, stretching the realm of American Stores from Boston Harbor with the Star Markets there to Alpha Beta -part of the American Stores deal –to Buttrey markets in the Northwest. In addition the Osco Drug chain, which had been part of Jewel, was added to the American stores arsenal. American Stores now reigned as the number three food chain with sales in 1987 of over $14 billion, in sales, 957 stores and assets of close to $1.8 billion.

The Lucky acquisition was to be the jewel in the crown. But until a final decision of the court American Stores must operate Lucky apart from Alpha Beta, foregoing the economies of scale it had hoped for. Currently, American Stores, runs neck and neck with Kroger as the biggest chain. The acquisition of Lucky would place it far in the lead.

In 1986 Safeway went private the LBO route after an aborted



***Specialty departments** have become the norm in supermarkets.*

***Despite more service departments,** labor costs have decreased from 13.5% to 12.7%.*

takeover attempt by the Dart Drug Group of Washington, D.C. Safeway was the first of the supermarket chains that Dart put into play. Its later forays into Stop & Shop of Boston and then Pathmark in New Jersey forced LBOs by their managements. Kroger, despite a restructuring in 1986 to forestall a takeover attempt, is at this writing under siege by Dart, but like other chains will go into debt and wrap itself in a blanket of privacy.

Safeway has emerged from its LBO, led by Kohlberg, Kravis, Roberts & Co. leaner and meaner. In a recent interview Safeway spokesperson Felicia del Campo told *CSA*, "The leveraged buyout has changed the way Safeway is managed. We concentrate more on cash flow and less on earnings. We are tracking our spending more closely."

Faced with a debt of $5.3 billion, of which more than $4 billion resulted from the buyout, the chain was able to pay off $1.4 through the divestiture of some of its divisions. Within a year and a half it sold off some 764 units in nine divisions, most recently its Houston group with 99 stores. It currently operates some 1,500 stores.

Similar reorganizations faced Stop & Shop and Pathmark following their LBOs. The pattern had been established: sell off the noncore assets, drastically cut back on capital expenditures, operational and management expenses and rely on the cash flow to keep the business afloat. The recovery of the A&P is the hoped for pattern to be followed.

Changes in the marketplace and the way it must be served have been as dramatic as the changes in the chain structures that serve it. And these changes will continue to impact in the decade ahead.

Population is growing at a rate of less than one percent annually. Food sales won't be buoyed as in the past by an ever growing customer base. Currently population is growing at the rate of .8%, roughly half of the growth rate of the 50's and 60's. Sales in the decades ahead will have to be bolstered by new products and services.

However, changes in the population's age distribution will have a decided impact on food sales. As the population shifts by age groupings, the greatest increase will be in families headed by persons 35 to 54 in the decades ahead. As Prudential-Bache points out, "The greatest population expansion will be among the higher income bracket individuals. Since households in this age group tend to spend more for food at home than the younger age groups do, the impact on the food industry of the 'aging' of our society should be beneficial."

The percentage of disposable personal income spent on food at home has decreased from 12.3 to 10.3 in the past ten years with the decrease being decidedly greater than that of the 10 previous years. At the same time more is being spent on food eaten away from home. The impact of this will be leavened somewhat as more and more chains expand their prepared food offering.

Competition for the food dollar has become increasing intense. It not only comes from restaurant business which has increased its share of food dollars in the last decade, but from a diversified marketplace ranging from drug stores to

hypermarkets with another half dozen variations thrown in between.

Convenience stores have undergone a phenomenal growth in the past decade, capturing an ever large share of the disposable food dollar. As the number of supers shrink, the convenience store is where shoppers go between their visits to the supermarket. Drug stores and discount houses in recent years have added a basic convenience store mix.

But the major impact on the conventional supermarket will come from the more broadly based superstores, more than double the size of the average supermarket and from the newly reintroduced hypermarkets with their vast product mix. Wal-Mart's Hypermarkets USA is already having an impact with its 200,000 foot units in the three markets that it serves, and Carrefour, the French import, has gained widespread recognition in the Philadelphia market, even though it had not advertised to it.

K mart is now readying its own hypermarket operation and if it follows the pattern it has with its other diversified operations, this chain will certainly be an important factor in the food equation, observers point out.

How will supermarket chains fare under these conditions. Probably quite well. The larger chains have already stripped themselves down as a result of buyouts or buyout threats. And the regionals such as Byerly's, the eight-store Minneapolis/St. Paul chain, Giant Food of Washington, D.C., or Weis Markets, Sunbury, Pa., continue to show their strength, generally producing a profit close to twice that of the large chain average.

Chains are getting closer to their customer and catering to their changing needs. The emphasis in most major supers on broad arrays of fresh produce, more variety in the dairy and meat cases, salads bars and service delis with their offerings of prepared foods are all indications of the direction in which the industry is going.

Today's food chains, for the first time in their history are in a position to control the retail equation. Due to the technology at their disposal they have more complete command of all facets of their operations especially in their ability to analyze and control their merchandise mix both in their distribution centers and their stores. Their ability to control the mix and its movement is having a profound effect on supplier relations. For the most part it is forging a closer relationship between vendor and supermarketer for their mutual profitability.

The same forces that are changing the nature of relationships in the general merchandise and other fields are beginning to impact on the food business as it seeks to improve its productivity and profitability. DPP has become the buzzword of the business as technology gives the industry a new way of looking at profitability. It enables one to judge contribution and cost from the point of manufacturing to the point of sale.

Supermarket chains have been encouraged by their ability to control labor costs. Over the last few years labor costs have been reduced from 13.5% to 12.7%.

The supermarket industry of the late 1980 is a different business than it was at the decade's dawn. It has gone through a transformation that have affected few others to the same degree. There is little question but that the consolidation in the industry will continue in the decade ahead, that continuing changes in food technology and product development will continue to alter the supermarket mix and its profitability, and that major advances in distribution concepts and technology will continue to drive the industry.

But whether forces will tend to make the industry more profitable than in the past is the big ponderable.

***Front end scanning**, the standard for supermarkets, is finding acceptance in discount and drug stores.*

Opportunistic Approach Propels Drug Store Chains

***Deep discount drug stores** shake the complacency of drug store operators.*

Last year was a tumultuous year for the nation's drug chains. But then each year of the past decade hasn't been much different for chains large and small as they vie for position in a changing marketplace.

And they face challenges far different than they did 10 years ago. New breeds of competition such as the deep discounters, combination stores and most recently the advent of the hypermarket all put pressure on traditional drug chains. Their defense has been to put an even greater effort into bolstering their core businesses. They have done so with more than modest success. A recent Nielsen study showed that drug store sales of toiletry and remedial items are increasing at a rate twice their growth in food stores.

Last year chain drug volume grew to $32.6 billion, an 8% gain over the year before and three points higher than overall retail sales. The fast paced growth of the drug chains, inflation fueled in the early part of the decade, has seen their sales go from $12.5 billion to its current $32.6 billion and their share of market going from 50% to 61%.

The chains have invested heavily in store plant. While there are fewer chains today --there's been a marked decrease in the number of four to ten store companies -- 11 and more store companies went on a store building spree. Between 1977 and 1987 the large chains, while declining in numbers as a result of acquisitions and consolidations, increased the number of stores they operated from 11,800 to over 19,000.

The drug chains' share of market in basic health and beauty aids has been eroding steadily since they first hit the supermarket shelves in the '50s. But for the first time last year, according to Nielsen, the important HBA category jumped six percent, twice the growth rate of supermarkets. However, most observers feel that this reversal is a temporary one with supermarkets and combo stores driving for higher sales in this as well as other key drug categories. And newly entered on the competitive scene are the new hypermarkets with their emphasis on general merchandise and those lines of products that are at the very heart of the chain drug store strength.

At the same time discounters, in their continuous trade-up drive, bring pressure on HBA products and even in the the pharmacy department. K mart for one has over 1,000 Rx departments in its nationwide network of stores and keeps adding them as additional stores come on line. Of course, K mart's infatuation with the drug field goes further than the operation of Rx departments within its stores. In 1985 its purchase of Pay Less NW, Wilsonville, Ore., signaled its serious intent to become a major player in the chain drug store business. It's driven Pay Less sales to $1.2 billion last year and went ahead with an intense store opening program that saw it open 47 stores in 1987, with another 30 planned for year. Wal-Mart has pharmacies in half of its thousand stores and more recently had experimented with its Dot deep discount drug stores.

But in terms of sheer competitive threat nothing has shaken up the complacency of the chain druggists than the advent of the deep discounters, those rogue retailers who can generate decent profits on oper-

ating grosses of less than 20%.

As the drug chains concentrate more and more on their core business some have divested themselves of their secondary operations. Walgreen, long the chain drug leader in the restaurant field not only has taken its food operations out of its drug stores but most recently sold off its Wags coffee shop operation to the Marriott Corp. It has also closed its Globe stores and shed itself of its franchise operation. Rite Aid has sold off its toy stores, got out of the novelty store business, Revco sold off the profit-draining Odd Lot operation, Carls stores in New York and 10 non-retail divisions. Perry Drug sold its auto-after care operation as well its Chicago store operations.

Chains with a clear marketing and operations strategy have fared well in the past years. Walgreen continues to outpace the drug store industry in sales and profitability ending its fiscal 1987 with $4.1 billion in sales and $103 million in net earnings. A major part comes from its prescription business –the largest in the USA – which grew nearly 30% to $1.1 billion. Considering that a decade ago its Rx sales were no more than 15% of sales this is a remarkable achievement. Last year's market crash did not slow Walgreen down. The chain will spend $130 million for expansion and modernization this year.

But the master's title for growth by acquisition has got to go to the $1.7 billion dollar Rite Aid chain, making it the largest chain with over 2,200 stores. Last year in one swoop it picked up the 365 store Gray Drug and Drug Fair stores, a $115 million dollar deal that entrenched the Pennsylvania chain in the midwest but helped it to consolidate its position on the eastern seaboard. This followed by five months Rite Aid's takeover of 218 SupeRx, Gray Drug and Drug Fair stores in Maryland, Georgia, Florida and Alabama.

In seven months Rite Aid had swelled its store count 45%. Then in the spring of this year it got a lock on the Kentucky market when it purchased the Begley Co. with 43 drug stores, 140 dry cleaning stores and a distribution center in Richmond. Rite Aid has rarely varied from the store pattern that has been its mark since its inception in the mid-60s; small stores with a concentration on a basic mix of branded goods interspersed with a broad assortment of private label goods in the fast moving categories. In addition the chain is known for its tight controls and the efficiency of its distribution system.

Longs Drug Stores, Walnut Creek, Calif., continues to be the leader in sales per store registering an average volume of $7.7 million in each unit. It is also, after several flat years, trying to regain its position as a profit leader. Last year it was able to boost its earning by 28% to $49.2 million on sales of $1.17 billion for its best performance ever. Tight operational discipline and, even more importantly, a withdraw-

Walgreens Increases Lead in Drug Field

Rank	Company	1978 Sales (000 omitted)	Rank	Company	1987 Sales (000 omitted)
1	Walgreens	$1,149,000	1	Walgreens	$4,154,000
2	Eckerd	1,100,000	2	Osco	3,647,000
3	Skaggs Cos.	1,000,000	3	Eckerd	2,750,000
4	Revco	896,000	4	Rite Aid	2,400,000
5	Thrifty	759,000	5	Revco	2,317,000
6	Long's	694,000	6	Longs	1,772,000
7	Rite Aid	640,000	7	Thrifty	1,400,000
8	Osco	525,000	8	Peoples	1,300,000
9	SupeRx	522,000	9	CVS	1,300,000
10	Sav-On	459,000	10	Pay Less NW	1,200,000
11	Peoples	404,000	11	Hook-SupeRx	1,000,000
12	Pay 'n Save	388,000	12	Thrift	979,000
13	Thrifty	348,000	13	Drug Emporium	868,000
14	Pay Less NW	346,000	14	Pay 'n Save	725,000
15	Pay Less (Calif.)	276,000	15	Perry	650,000
16	CVS	275,000	16	Fay's	600,000
17	Drug Fair	251,000	17	Phar-Mor	460,000
18	K mart	225,000	18	Brooks	390,000
19	Dart	200,000	19	K & B	378,000
20	Gray	203,000	20	F & M	330,000
21	Pathmark	200,000	21	Medicine Shoppe	325,000
22	Hook	194,000	22	Genovese	314,000
23	Cunningham	168,000	23	Big B	240,000
24	Adams	154,000	24	Snyder	225,000
25	K & B	150,000	25	Arbor	215,000

Source: Lebhar-Friedman research/annual reports

Toiletries, cosmetics, proprietary medicines and prescriptions will be core areas.

al from marginal markets contributed to bottom line improvement.

Mergers and LBOs have rocked the chain drug industry in the past few years. Probably the first indication that the drug chains were enticing to outside raiders was when Herb Haft, ex-druggist and entrepreneur, made a play for the floundering Eckerd Drug Co. Eckerd management staved off the Dart ploy with an LBO that left it heavily in debt. It quickly sold off a profit draining electronics company, sold off stores in weak markets, and strengthened itself operationally. Last year it reported that after three years into the buyout cash flow was sufficient to cover interest expenses and provide enough working capital for the company to sustain itself.

Revco, which rode high and mighty for two decades came upon hard times in the mid-70s. Its disastrous purchase of the Odd Lot outlet stores precipitated its fall and an LBO by its management didn't stem the tide. Revco is now under new management trying to work its way out of a Chapter 11 reorganization.

The marauding Dart group was also responsible for putting into play Stop & Shop of Boston and Supermarkets General of New Jersey. In each case an LBO was the result, with the Hafts taking their money, and the surviving companies forced to sell off their assets, among which were the chains of free standing stores that they operated. And it was to ward off attacks that Kroger restructured two years ago and in the process sold off its SupeRx-Hook drug to its division management. This has not stopped Dart from going after Kroger. Most recently the Darts put the Walgreen company into play, but industry observers feel that there is no way that Dart can make much progress against the entrenched Walgreen interests.

Drug chains are a lot stronger as a group as they head into the 1990s than they were coming into this last decade. The competitive lines are more clearly defined and the drug chains on the whole have a more clear cut idea of their mission. The changing demographics are working in their favor. The aging of the population gives them a growing customer base for providing long term maintenance medication.

Stewart Turley, chairman of Eckerd Drug summed it up when he told Drug Store News, "We face an increasing number of elderly persons in our nation. Eleven percent of the population that is over 65 consumers 35% of the health care dollars today. It is estimated that 40% of the medicare dollar is spent providing care in the last year of life."

And there is little question that the drug chains will continue to drive for a greater share of the Rx dollar. However, they are deeply concerned about the future profitability of the pharmacy business. It's not only the escalating inventory costs as new products come on stream nor the increasing difficulty in getting pharmacists. What concerns the drug chains most is the steady encroachment of third party payers, government and private providers alike, who are subjecting chain procurement and pricing policies to intense scrutiny.

Like other retailers, drug chains are beginning to take advantage of available technology to increase their operational efficiencies. Much of it has been applied in distribution centers which supply anywhere from 70% to 90% of the merchandise carried in their units. The big question facing the drug chains is to what extent the introduction of computer driven technology can increase their warehouse turn factor from its current four to five turns.

Although, according to the Nielsen study, 86% of all chain drug stores have computerized pharmacy operations, real strides in inventory management and increasing turns at both stores and distribution centers awaits the utilization of UPC scanner systems in the stores. Nielsen reports that eight out of 10 chain drug executives interviewed feel that within five years they'll be on a par with supermarkets in scanner utilization.

The chain drug store of the 1990s will be a more focused retailing unit thant it was in the 80s, but it will not vary that much in its basic characteristics. It will continue in its role as a community convenience store carrying on its shelves an exotic assortment of goods ranging from garden supplies to cartons of motor oil. But at its core will be its ever growing pharmacy department, and increasingly sophisticated cosmetics operation, the widest assortment of toiletries and proprietary medicines that can be found.

Over the decades the chain drug unit has proved to be flexible and fast responding to the changes in the social and economic environment. It has done well despite the inroads made on its basic lines by other retailers. And because of its innate opportunistic approach to retailing challenges, look to the drug chains not only to survive but to prosper in the decade ahead.